

Message Text

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ORIGIN EB-07

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R 171258Z SEP 76

FM SECSTATE WASHDC

TO AMEMBASSY ABIDJAN

AMEMBASSY ADDIS ABABA

AMEMBASSY BOGOTA

AMEMBASSY CONAKRY

AMEMBASSY COTONOU

AMEMBASSY DAR ES SALAAM

AMEMBASSY GUATEMALA

AMEMBASSY JAKARTA

AMEMBASSY KINSHASA

AMEMBASSY LIMA

AMEMBASSY MANAGUA

AMEMBASSY MEXICO

AMEMBASSY NAIROBI

AMEMBASSY NEW DELHI

AMEMBASSY QUITO

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

AMEMBASSY SANTO DOMINGO

AMEMBASSY TANANARIVE

AMEMBASSY TEGUCIGALPA

AMEMBASSY YAOUNDE

INFO AMEMBASSY BONN

USMISSION GENEVA

AMEMBASSY LONDON

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AMEMBASSY OTTAWA

AMEMBASSY PARIS
AMCONSUL RIO DE JANEIRO
AMEMBASSY ROME
AMCONSUL SAO PAULO
AMEMBASSY STOCKHOLM
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
USMISSION OECD PARIS
USMISSION EC BRUSSELS

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E.O. 11652: N/A

TAGS: ETRD, EAGR, BR

SUBJECT: COFFEE: U.S. VIEWS ON BRAZILIAN PURCHASES

1. THE DEPARTMENT IS CONCERNED OVER REPORTS THAT BRAZIL HAS PURCHASED LARGE QUANTITIES OF COFFEE FROM EL SALVADOR AND THE MALAGASY REPUBLIC AND IS INTERESTED IN FURTHER PURCHASES FROM OTHER PRODUCERS. THE ANNOUNCEMENTS OF THE PURCHASES HAVE FURTHER UNSETTLED COFFEE MARKETS ALREADY MADE NERVOUS BY HIGH PRICES BROUGHT ON BY A TIGHTENING SUPPLY OF COFFEE. WE HAVE EXPRESSED OUR CONCERN TO BRAZIL BILATERALLY, INDICATING THAT WE FAIL TO UNDERSTAND THE RATIONALE FOR THE PURCHASES AND SUGGESTING THAT THEY ARE NOT IN KEEPING WITH THE SPIRIT AND UNDERTAKINGS OF THE NEW INTERNATIONAL COFFEE AGREEMENT.

2. WE WANT TO DISCOURAGE FURTHER SUCH PURCHASES. WHILE OUR SELF INTEREST IS OBVIOUS WE THINK IT IMPORTANT THAT PRODUCING MEMBER COUNTRIES OF THE NEW ICA UNDERSTAND THAT SALES TO OTHER PRODUCERS WILL NOT REPEAT NOT COUNT IN DETERMINING THE SELLING COUNTRIES BASIC EXPORT QUOTAS. ONLY THAT COFFEE WHICH CAN BE CONFIRMED BY IMPORTING MEMBER COUNTRIES TO HAVE BEEN IMPORTED BY THEM FROM SPECIFIC EXPORTING MEMBERS WILL COUNT FOR QUOTA PURPOSES.

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3. ARTICLE 30 OF THE NEW ICA PROVIDES FOR THE CALCULATION OF BASIC QUOTAS. IT STATES THAT BASIC QUOTAS WILL BE DISTRIBUTED ON THE BASIS OF THE AVERAGE ANNUAL VOLUME OF EXPORTS OF EACH EXPORTING MEMBER TO IMPORTING MEMBERS DURING THE HIGHER OF TWO ALTERNATIVE PERIODS: THE FIRST TWO YEARS OF THE NEW AGREEMENT OR THE LAST FOUR YEARS OF THE OLD AGREEMENT (1968/69 TO 1971/72). THE PERIOD MOST PRODUCERS WILL USE IS THE FIRST TWO YEARS OF THE

NEW AGREEMENT SINCE THEIR EXPORT PERFORMANCE IS LIKELY TO BE LARGER IN THIS PERIOD THAN IN THE PREVIOUS ONE. ONLY BRAZIL AND ANGOLA, WHOSE PERFORMANCE IS LIKELY TO BE POOR FOR THE NEXT SEVERAL YEARS, ARE EXPECTED TO USE THE EARLIER PERIOD. UNDER ARTICLE 30, EXPORTS TO OTHER EXPORTING MEMBERS OR TO NON-MEMBERS ARE NOT INCLUDED IN THE BASIC QUOTA CALCULATION.

4. THUS, AN EXPORTING MEMBER WHICH SELLS ITS COFFEE TO ANOTHER EXPORTING MEMBER FOREGOES AN OPPORTUNITY TO ENLARGE ITS BASIC QUOTA. FOR EXAMPLE, THE MALAGASY REPUBLIC RECENTLY ANNOUNCED IT WOULD SELL 10,000 TONS OF COFFEE TO BRAZIL. EMBASSY TANANARIVE ESTIMATES THIS AMOUNT AS TWELVE TO FOURTEEN PERCENT OF ANNUAL PRODUCTION. BY DIVERTING THIS COFFEE FROM IMPORTING MEMBER MARKETS TO AN EXPORTING MEMBER MARKET, MALAGASY WILL POTENTIALLY REDUCE ITS QUOTA BASE BY SIX TO SEVEN PERCENT. IF, IN LATER YEARS, QUOTAS ARE IMPOSED, MALAGASY WILL BE STUCK WITH A REDUCED BASIC QUOTA FOR THE LIFE OF THE AGREEMENT.

5. THE U.S. DELEGATION TO THE ICO COFFEE COUNCIL MEETING IN LONDON SEPTEMBER 27-OCTOBER 1 WILL MAKE THIS POINT CLEAR TO PRODUCERS. HOWEVER, A NUMBER OF PRODUCING COUNTRIES MAY BE REPRESENTED BY THEIR EMBASSIES IN LONDON RATHER THAN OFFICIALS OF THEIR COFFEE INDUSTRIES. THEREFORE, ACTION ADDRESSEES ARE REQUESTED TO INFORM THE OFFICIALS RESPONSIBLE FOR COFFEE SALES POLICIES IN THEIR COUNTRIES OF THE FOREGOING U.S. VIEWS ON THE DISADVANTAGES FOR EXPORTING MEMBERS OF SALES TO OTHER EXPORTING MEMBERS. ROBINSON

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